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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

January 7, 2002

Mr. David M. Walker
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Comptroller Walker:

The collapse of Enron Corp. has heightened concern about the adequacy of financial reporting in the United States. Accurate and honestly-presented financial information is essential to the efficiency of our capital and securities markets, yet in recent years costly accounting irregularities have proliferated. I am writing to request that the General Accounting Office evaluate the oversight of the accounting profession in the United States and consider the extent to which defects in that oversight may have contributed to or increased the risks of such irregularities.

In the first part of its study, GAO should analyze recent Securities and Exchange Commission enforcement cases involving accounting irregularities. Your analysis should focus on the role that outside auditors, as well as boards of directors, board committees, corporate officers and in-house financial and auditing staffs, securities analysts, and bond rating agencies, may have had in contributing to or magnifying the effect of the accounting irregularities at issue.

Second, I would like the GAO to analyze the steps taken by the accounting industry and the SEC to implement the recommendations developed by the Public Oversight Board's Panel on Audit Effectiveness since those recommendations were released on September 6, 2000. In particular, I am interested in the Panel's recommendations regarding the use of forensic-type procedures in all audits, stronger disciplinary processes, a unified governance system, and a global oversight structure for the accounting profession.

Third, I would like the GAO to assess generally the governance and disciplinary structure imposed by the Public Oversight Board, American Institute of Certified Public Accountants (AICPA), SEC Practice Section of the AICPA, and the SEC itself. The GAO should compare the current structure with the one being implemented for accountants in the United Kingdom, as well as with self-regulatory structures in the securities industry, particularly those administered by the National Association of Securities Dealers.

Finally, any suggestions you may have for ensuring competitive independence in the accounting industry, which is vital to the functioning of our securities laws, would also be welcome.

I would appreciate receiving a report in response to these concerns, as well as any legislative recommendations, by June 30, 2002.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Sarbanes", with a long horizontal line extending to the right.

Paul S. Sarbanes
Chairman